



# South Dakota Public Utilities Commission

State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070



May 14, 1998

DOCKET FILE COPY ORIGINAL

RECEIVED  
MAY 15 1998  
FCC FILE

Ms, Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M. St., NW, Room 222  
Washington, D.C. 20554

Re: CC Docket No. 96-45 and 97-160 [DA 98-715]

Dear Ms. Salas:

Enclosed are an original plus six copies of the South Dakota Public Utilities Commission's Comments to be filed in the above docket. Please date-stamp one copy and return it in the enclosed, self-addressed stamped envelope.

Capitol Office  
Telephone (605)773-3201  
FAX (605)773-3809

Transportation/  
Warehouse Division  
Telephone (605)773-5280  
FAX (605)773-3225

Consumer Hotline  
1-800-332-1782

TTY Through  
Relay South Dakota  
1-800-877-1113

Internet  
billb@puc.state.sd.us

♦  
Jim Burg  
Chairman  
Pam Nelson  
Vice-Chairman  
Laska Schoenfelder  
Commissioner

William Bullard Jr.  
Executive Director

Edward R. Anderson  
Harlan Best  
Martin C. Bettmann  
Charlie Bolle  
Sue Cichos  
Karen E. Cremer  
Marlette Fischbach  
Shirleen Fugitt  
Lewis Hammond  
Katie Hartford  
Leni Healy  
Camron Hoseck  
Dave Jacobson  
Bob Knadle  
Delaine Kolbo  
Jeffrey P. Lorensen  
Terry Norum  
Gregory A. Rislov  
Tammi Stangohr  
Steven M. Wegman  
Rolayne Ailts Wiest

Sincerely,

William Bullard, Jr.  
Executive Director

CGB:cgb  
Enclosure  
cc: Parties of Record

No. of Copies rec'd  
List A B C D E

025

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

RECEIVED  
MAY 15 1998  
FCC

In the Matter of	)	CC Docket No. 96-45, 97-160
	)	
Federal-State Joint Board on	)	DA 98-715
Universal Service	)	

**PROPOSALS TO REVISE THE METHODOLOGY FOR DETERMINING  
UNIVERSAL SERVICE SUPPORT**

The **South Dakota Public Utilities Commission** ("SDPUC") believes that none of the proposals at this time appear to be close to being ready to develop the support needed to promote and advance Universal Service. We also believe that 1/1/99 will arrive and no proposal will be ready to be implemented. The current mechanisms have served well in the past in providing rural companies high cost support that allows for affordable rates and has promoted current technology. We believe the current mechanisms should be reviewed and updated to address the concerns of various parties and allowed to remain in place after 1/1/99. Proposals could continue to be worked on and when, if ever, a proposal is developed that does provide for a better support mechanism then the current method at that time the FCC could consider the implementation of such a model.

The SDPUC does not support the alternative distribution proposal for high cost support that was developed by an Ad Hoc Staff Group and filed with the Federal Communications Commission ("FCC") on April 27, 1998. The following is submitted to express and explain SDPUC's concerns:

1. Use of the embedded costs as a basis for receiving support will not provide support where it is needed most.

There are too many other factors related to embedded cost such as the age of

the plant and the rate of depreciation. Using embedded cost penalizes states with older plant and high depreciation rates.

The Act states that urban and rural areas are to have comparable service and rates. This will not happen if there is no support for upgrading service in rural areas. By using the older depreciated plant as the basis for support the plan does not provide support to achieve the comparable rates and service required by the Act.

The models are designed to provide support for a set of services that has been defined as universal service. By using the embedded cost, that only include the loop cost, you do not provide sufficient support in the high cost areas to provide those universal services. Those states whose support is calculated using the model are provided support for digital switching and will have the capability to upgrade services to support the required services. A state that is provided support using the embedded cost does not have the cost of the switch considered for support.

If the problem is in the models, then the model should be fixed. The Joint Board is working on this problem and we should give the joint board and the parties the opportunity to correct the models and not substitute an embedded number that puts the issuance of support on a basis that is not comparable among states.

## **2. State-wide averaging does not provide sufficient support for companies with areas of extreme high cost.**

When you use state-wide averaging you are continuing the implicit subsidy of rate averaging.

In states such as South Dakota where you have a large number of small companies, the proposal does not provide sufficient support to the small companies by including them in the state wide average.

We can't assure that the small companies will be held harmless and they will receive the same amount. We have some areas of USW serving area that have just as high cost as the small companies.

Under this proposal, the USW exchanges that have been sold and were not receiving funding before will not receive funds. Some of these exchanges had very old plant and the buyers were depending on universal service funding to assist in upgrading the plant.

## **3. Implementation**

**This plan would require the continuation of data collection of ILEC's costs for calculation of support based on embedded costs.**

This requirement on the ILECs but not the CLECs would be anticompetitive. The proposal will require calculating embedded cost and model cost. It would also require the continuation of Part 32 Accounting and Separations. It seems unlikely that in a competitive market that these requirements could be imposed on the ILECs in the future.

One of the reasons models were proposed was so that the funding would be competitively neutral and put CLECs and ILECs on an even basis in calculating support.. Providing support on the basis of embedded costs means CLECs would receive or not receive funds based on the incumbents costs. This is not competitively neutral.

**Does not give support equitably.**

Providing support calculated on either the model's costs, the embedded costs, or the current support received is not comparable. Support received based upon the model includes support for undepreciated total cost to provide the services defined as universal service. The support received based upon the embedded cost or the current support, receive support for only the depreciated loop cost.

05 states receive support based on the model  
14 states receive support based on the embedded costs  
28 receive support based on the amount received under the current USF  
03 states receive no support  
20 states receive more support than provided by the current fund.

**In many cases the results don't make sense.**

Under the model Louisiana would receive support of 48 m, under the embedded they would receive 88 m, under the current system they receive 50 m. Louisiana's support would be the 50 m calculated under the current USF.

Iowa would receive 130 m under the model, nothing under the embedded, and 20 m under the hold harmless.

South Dakota would receive 115 m under the model, 14 m under the embedded, and 13 m under the hold harmless.

Why is there so much difference between the support calculated from the model,

the embedded and what the state currently receives? Especially when you consider that the current cost is calculated on the same embedded cost.

**This proposal is detrimental to states with extremely high cost loops, favors states with moderately statewide high cost loops.**

South Dakota has a much higher percentage of its lines in the lowest density zones. SD has 13%, while Maine has 2% and Vermont less than 1%. Yet SD will receive an increase of \$0.30 per line. While Maine and Vermont will receive increases of \$4.23 and \$4.47 per line. How is SD, a rural state, suppose to support affordable rates in rural areas and also allow for local competition in urban areas.

**4. Does not meet the very goals set out in the paper**

a) Regarding **sufficiency** - The plan was designed to achieve a given bottom line and nothing says that using the lower of the embedded cost , the model's cost or the hold harmless is going to meet the sufficiency standard in the Act.

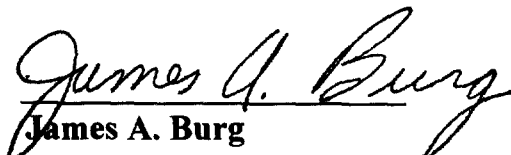
b) **Competitively neutral** - distributing support on the basis of the incumbents cost is not competitively neutral.


c) Will not meet the goal of **reasonable comparable rates** within a state or between states. Some states with very high cost areas will not receive sufficient support to maintain comparable rates.

**5. Removing the definition of large and small companies**

The SDPUC also has a major concern with the removal of the definition of large and small companies. Large companies have an economy of scale that must not be over looked. It appears that this change would place an additional requirement on the fund of approximately \$600 million.

Respectfully submitted by the South Dakota Public Utilities Commission this 14th day of May 1998.

  
**James A. Burg**  
Chairman

  
**Pam Nelson**  
Commissioner

CERTIFICATE OF SERVICE

I hereby certify that copies of the Proposals to Revise the Methodology for Determining Universal Service Support were served on the following by mailing the same to them by United States Post Office First Class Mail, postage thereon prepaid, at the address shown below on the 14th day of May, 1998.

See attached Exhibit A.

A handwritten signature in cursive script, reading "Delaine Kolbo", is written over a horizontal line.

Delaine Kolbo  
Legal Secretary  
South Dakota Public Utilities  
Commission  
500 South Capitol  
Pierre, SD 57501

EXHIBIT A

HON. LASKA SCHOENFELDER  
COMMISSIONER  
SOUTH DAKOTA PUBLIC UTILITIES COMM.  
500 EAST CAPITOL  
PIERRE SD 57501-5070

LEGAL ADVISOR  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF COMMISSIONER POWELL  
1919 M STREET NW ROOM 844  
WASHINGTON DC 20554

HON. DAVID BAKER  
COMMISSIONER  
GEORGIA PUBLIC SERVICE COMMISSION  
244 WASHINGTON STREET SW  
ATLANTA GA 30334-5701

MARTHA S HOGERTY  
MISSOURI OFFICE OF PUBLIC COUNCIL  
PO BOX 7800  
JEFFERSON CITY MO 65102

ROWLAND CURRY  
TEXAS PUBLIC UTILITY COMMISSION  
PO BOX 13326  
AUSTIN TX 78701

SHERYL TODD  
FCC - ACCOUNTING & AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8611  
WASHINGTON DC 20554

IRENE FLANNERY  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8922  
WASHINGTON DC 20554

SANDRA MAKEEFF  
IOWA UTILITIES BOARD  
LUCAS STATE OFFICE BUILDING  
DES MOINES IA 50319

MARK LONG  
FLORIDA PUBLIC UTILITY COMMISSION  
2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE FL 32299-0866

LORI KENYON  
ALASKA PUBLIC UTILITIES COMMISSION  
1016 WEST SIXTH AVENUE SUITE 400  
ANCHORAGE AK 99501

CHARLES BOLLE  
SOUTH DAKOTA PUBLIC UTILITIES COMM.  
500 EAST CAPITOL  
PIERRE SD 57501-5070

HON. JULIA JOHNSON  
CHAIRMAN  
FLORIDA PUBLIC SERVICE COMMISSION  
2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE FL 32399-0850

HON. H. RUSSELL FRISBY  
COMMISSIONER  
MARYLAND PUBLIC SERVICE COMMISSION  
16TH FLOOR 6 PAUL STREET  
BALTIMORE MD 21202-6806

DEONNE BRUNING  
NEBRASKA PUBLIC SERVICE COMMISSION  
PO BOX 94927  
LINCOLN NE 68509-4927

JAMES CASSERLY  
FEDERAL COMMUNICATIONS COMMISSION  
COMMISSIONER NESS' OFFICE  
1919 M STREET NW ROOM 832  
WASHINGTON DC 20554

LISA BOEHLEY  
FEDERAL COMMUNICATIONS COMMISSION  
CCB, ACCOUNTING AND AUDITS DIVISION  
2100 M STREET NW ROOM 8924  
WASHINGTON DC 20554

BRIDGET DUFF  
STATE STAFF CHAIR  
FLORIDA PUBLIC SERVICE COMMISSION  
2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE FL 32399-0866

LISA GELB  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8601  
WASHINGTON DC 20554

EMILY HOFFNAR  
FCC - ACCOUNTING & AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8617  
WASHINGTON DC 20554

PHILIP F MCCLELLAND  
PENNSYLVANIA OFFICE OF  
CONSUMER ADVOCATE  
1425 STRAWBERRY SQUARE  
HARRISBURG PA 17120

THOR NELSON  
COLORADO OFFICE OF CONSUMER COUNSEL  
1580 LOGAN STREET SUITE 610  
DENVER CO 80203

PAMELA GALLANT  
FEDERAL COMMUNICATIONS COMMISSION  
CCB, ACCOUNTING AND AUDITS DIVISION  
2100 M STREET NW ROOM 8912  
WASHINGTON DC 20554

BRIAN ROBERTS  
CALIFORNIA PUBLIC UTILITIES COMM.  
505 VAN NESS AVENUE  
SAN FRANCISCO CA 94102

TIANE SOMMER  
GEORGIA PUBLIC SERVICE COMMISSION  
244 WASHINGTON STREET SW  
ATLANTA GA 30334-5701

ANN DEAN  
MARYLAND PUBLIC SERVICE COMMISSION  
16TH FLOOR 6 PAUL STREET  
BALTIMORE MD 21202-6806

HON. WILLIAM E KENNARD  
CHAIRMAN  
FEDERAL COMMUNICATIONS COMMISSION  
1919 M STREET NW ROOM 814  
WASHINGTON DC 20554

HON. SUSAN NESS  
COMMISSIONER  
FEDERAL COMMUNICATIONS COMMISSION  
1919 M STREET NW ROOM 832  
WASHINGTON DC 20554

HON. GLORIA TRISTANI  
COMMISSIONER  
FEDERAL COMMUNICATIONS COMMISSION  
1919 M STREET NW ROOM 826  
WASHINGTON DC 20554

TIMOTHY PETERSON  
DEPUTY DIVISION CHIEF  
FCC - ACCOUNTING AUDITS DIVISION  
2000 L STREET NW ROOM 812  
WASHINGTON DC 20554

MARYANNE MCCORMICK  
FEDERAL COMMUNICATIONS COMMISSION  
CCB, ACCOUNTING AND AUDITS DIVISION  
2100 M STREET NW ROOM 8619  
WASHINGTON DC 20554

BARRY PAYNE  
INDIANA OFFICE OF THE CONS. COUNSEL  
100 NORTH SENATE AVENUE ROOM N501  
INDIANAPOLIS IN 46204-2208

JAMES B RAMSAY  
NATIONAL ASSOCIATION OF REGULATORY  
UTILITY COMMISSIONERS  
PO BOX 684  
WASHINGTON DC 20044-0684

L. CHARLES KELLER  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8918  
WASHINGTON DC 20554

DIANE LAW  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8920  
WASHINGTON DC 20554

CHERYL LEANZA  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8905  
WASHINGTON DC 20554

HON. MICHAEL K POWELL  
COMMISSIONER  
FEDERAL COMMUNICATIONS COMMISSION  
1919 M STREET NW ROOM 844  
WASHINGTON DC 20554

HON. HAROLD W FURCHTGOTT-ROSS  
COMMISSIONER  
FEDERAL COMMUNICATIONS COMMISSION  
1919 M STREET NW ROOM 802  
WASHINGTON DC 20554

THOMAS POWER  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF CHAIRMAN  
1919 M STREET NW ROOM 814  
WASHINGTON DC 20554

ROBERT LOEBE  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8914  
WASHINGTON DC 20554

MARK NADEL  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8916  
WASHINGTON DC 20554



KIMBERLY PARKER  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8609  
WASHINGTON DC 20554

NATALIE WALES  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8405  
WASHINGTON DC 20554

JOEL B SHIFMAN  
MAINE PUBLIC UTILITIES COMMISSION  
STATE HOUSE STATION #18  
242 STATE STREET  
AUGUSTA ME 04333

BRYAN CLOPTON  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8615  
WASHINGTON DC 20554

RICHARD D SMITH  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8605  
WASHINGTON DC 20554

LORI WRIGHT  
FCC-CCB, ACCT. AND AUDITS DIVISION  
UNIVERSAL SERVICE BRANCH  
2100 M STREET NW ROOM 8603  
WASHINGTON DC 20554

PETER BLUHM  
SHELDON KATZ  
VERMONT PUBLIC SERVICE BOARD  
112 STATE STREET DRAWER 20  
MONTPELIER VT 05620-2701